

STERLING TRUST CORPORATION

Annual
Report
1976

AR26





On behalf of the Board of Directors and staff I'm pleased to report significant records in both earnings and volume during 1976, the year of our 65th anniversary.

Despite all the problems of inflation and an unsettled economy, your Corporation is pleased to report net earnings after tax exceeded one million dollars for the first time in the Corporation's 65 year history, and represent an increase of 29% Earnings per share increased from \$1.04 in 1975 to \$1.25 per share in 1976 after extraordinary gains.

Gross assets increased by 25% to \$199,119,000. As you read this report, Sterling Trust will have surpassed the two hundred million dollar mark.

A considerable achievement when you stop to consider that the financial industry faced a turbulent year as a result of regulations from the Anti-Inflation Board, the discussions surrounding the Bank Act revision, high interest rates, depressed real estate activity and the restrictive monetary policies that were imposed in Canada and the United States.

Of equal significance was the reduction of the deficiency between the book cost of the Corporation's securities and the market value from \$1,389,000 in 1975 to \$603,000 in 1976. I would also like to point out the total investment in securities increased from \$13,671,000 to \$16,455,000.

Your Corporation made application during 1976, under revised Department of Insurance operating regulations, for an increase in the approved borrowing multiple from 20 times unimpaired capital to 23 times. Approval was conditional upon the issuance by the Corporation of subordinate notes representing in amount, 5% of the borrowings in excess of 20 times. You will note the issuance of one million dollars in subordinate notes on the balance sheet.

Dividends on the Corporation's shares were increased to 11¢ per share in the September quarter. This rate was permitted by the Anti-Inflation Board regulations.

The continuation of our branch expansion program with the opening of Midland in January and Uxbridge in September was followed by a new branch in Markham in the first week of January 1977, bringing to ten our branch total.

In 1976, our aggressive Retirement Savings Plan campaign resulted in record sales in our Guaranteed Plan and now represents a significant portion of our Guaranteed Account growth. Two new products were introduced in 1976: The Sterling Mortgage Fund, which offers high yield and excellent liquidity, has achieved wide acceptance. The new Personal Loan programme, oriented to our existing customers, will enable the Corporation to compete more favorably with a full range of services.

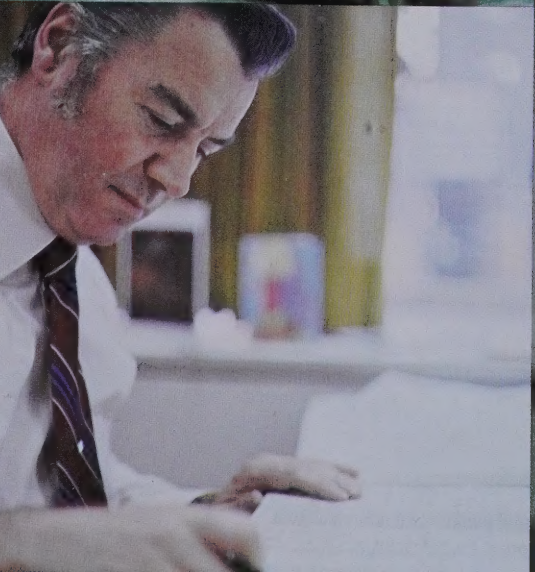
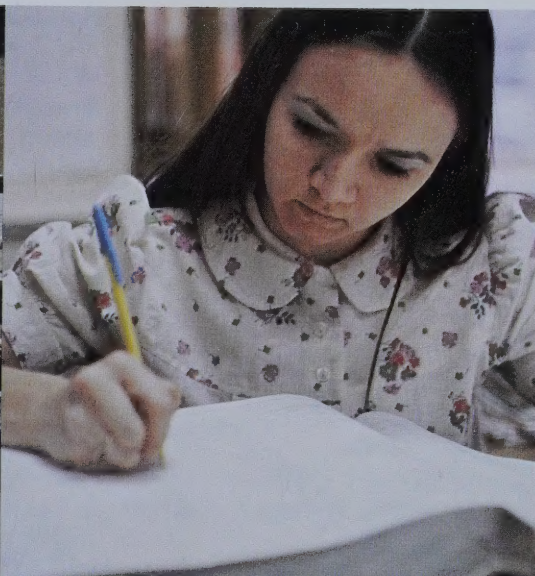
On December 30, 1976, Sterling Trust purchased an eight-storey building located on the north-west corner of Bay and Wellington Streets, Toronto. An attractive building, it is a unique location in the core of the city's financial district, and is surrounded by major banking towers. This purchase will facilitate the move of our Corporate Head Office from its existing leased premises at 372 Bay Street during 1977. Sterling will occupy 2-1/2 of the eight floors with the remaining providing rental income.

The outlook for 1977 will be significantly affected by the implementation of the new Bank Act and by the Borrowers and Depositors Protection Act. Normal increases in operating costs, plus the extraordinary expenses alluded to above, can only be offset by higher volumes. Such increased volumes will require a broader capital base. The inadvisability of selling common equity in the face of depressed markets at discounts to book value necessitates the creation and sale of Preferred Shares to expand our capital base.

During 1976, Mr. Archibald D. Russel, due to pressing personal business commitments, regrettably resigned as a member of our Board of Directors. Appointments during 1976 include the addition of Mr. James W. Blaney, Q. C. to the Board of Directors filling the vacancy left by Mr. Russel and the appointment of Mr. F. Robert Hewett as Executive Vice-President of the Corporation.

In a service industry such as ours, I cannot over emphasize the conscientious efforts made by our dedicated staff and Board of Directors in achieving the record results of 1976. I would like to thank our Shareholders for their support and continued use of our broad range of financial services.

N.F. Petersen President



Directors

*S. Bruce Adams, F.C.A.
Toronto, Ont.

Norman H. Bell
Toronto, Ont.

James W. Blaney, Q.C.
Toronto, Ont.

*Horace T. Burgess
Toronto, Ont.

Peter O. Crassweller, M.D.,
F.R.C.S.(C), F.A.C.S.
Toronto, Ont.

*Robert I. Hendy, Q.C.
Toronto, Ont.

*F. Robert Hewett
Toronto, Ont.

*H. Donald Langdon, Q.C.
Toronto, Ont.

*Charles F. Petersen
Toronto, Ont.

*Niels F. Petersen
Toronto, Ont.

Charles J. Seagram, Q.C.
Barrie, Ont.

*T. Gordon Taylor
Toronto, Ont.

Arthur W. White
Toronto, Ont.

J. Alex Wilson, B.A. Sc., P.Eng.
Orillia, Ont.

*Members of the Executive
Committee

Officers

Niels F. Petersen
President and
Chairman of the Board

F. Robert Hewett
Executive Vice-President

Charles F. Petersen
Vice-President Operations

Horace T. Burgess
Vice-President

H. Donald Langdon, Q.C.
Vice-President

T. Gordon Taylor
Managing Director

Dennis W. Jones, F.C.I.S.
Assistant General Manager

James A. Shute
Assistant General Manager

Fred C. Beveridge
Secretary and Transfer Officer

William L. Henderson, F.C.G.A.
Treasurer

Auditors

Peat, Marwick, Mitchell & Co.

Head Office:

372 Bay St., Toronto
M5H 2X2/364-7495

Branches

John C. K. van den Heuvel
347 Bay St., Toronto
M5H 2R7/363-6341

Jack H. Renz
1 Yonge St. S., Aurora
L4G 1L8/727-1328

Gerald K. Cooper
1 Brock St. E., Uxbridge
L0C 1K0/852-3383

Anne L. Eddington
Orillia Square, Orillia
325-2373

B. Del Reed
309 King St., Midland
L4R 4P4/526-3768

Bev M. Hewitt
73 Mississauga St. E., Orillia
L3V 6J3/325-2226

Ross A. Furzecott
16 Dunlop St. E., Barrie
L4M 1A3/726-6495

J. Doug McArthur
72-C Main St. N., Markham
L3P 1X5/294-3207

Barry J. Norman
Riverside Plaza, Bracebridge
P0B 1C0/645-5219

Peter Humphrey
721 Davis Dr., Newmarket
L3Y 2R2/898-2700

Sterling Trust Corporation
Consolidated Statement of Earnings

For the year ended December 31, 1976
with comparative figures for 1975

	1976	1975
Revenue:		
Income from mortgages and other loans	\$17,267,663	\$13,012,589
Income from securities	1,169,434	829,199
Fees and commissions	489,766	440,861
Other operating revenue	134,573	84,099
Total revenue	<u>19,061,436</u>	<u>14,366,748</u>
Expenses:		
Interest on guaranteed trust account	14,256,584	10,553,403
Interest on subordinated notes and mortgages	87,135	—
Salaries and staff benefits	1,673,234	1,307,538
Premises, including depreciation of \$23,650 (1975—\$20,004)	486,250	377,537
Other operating expenses	915,060	789,926
Total expenses	<u>17,418,263</u>	<u>13,028,404</u>
Operating income before income taxes	1,643,173	1,338,344
Income taxes—current	526,946	262,796
—deferred	48,000	301,500
	<u>574,946</u>	<u>564,296</u>
Net operating income	1,068,227	774,048
Gain on sale of securities less related income taxes of \$3,200 (1975—\$18,804)	31,868	30,659
Gain on sale of office premises less related income taxes of \$14,600	—	49,109
Net earnings for the year	<u>\$ 1,100,095</u>	<u>\$ 853,816</u>
Earnings per share (note 1):		
Net operating income	\$ 1.25	\$.94
Gain on sale of securities and office premises	.04	.10
Net earnings for the year	<u>\$ 1.29</u>	<u>\$ 1.04</u>

*See accompanying notes to consolidated financial statements

Sterling Trust Corporation
Consolidated Balance Sheet
December 31, 1976
with comparative figures for 1975

Assets

	1976	1975
Cash and bank deposit receipts	\$ 6,842,872	\$ 4,725,346
Income taxes recoverable	—	63,924
Securities (note 2):		
Bonds and debentures	9,066,090	9,313,322
Stocks	7,388,753	4,357,256
Total securities	16,454,843	13,670,578
Loans:		
Mortgages	165,443,322	137,816,807
Loans on securities	7,716,466	2,661,454
Consumer loans	115,538	63,063
Total loans	173,275,326	140,541,324
Office premises and equipment at cost, less accumulated depreciation \$204,755 (1975—\$181,105)	2,467,823	355,263
Other assets	78,497	31,049
	<u>\$199,119,361</u>	<u>\$159,387,484</u>

Liabilities and Shareholders' Equity

	1976	1975
Guaranteed trust account:		
Savings Deposits	\$ 26,472,841	\$ 21,526,803
Guaranteed investment certificates	160,047,346	128,955,702
Total guaranteed trust account	186,520,187	150,482,505
Income taxes payable	345,893	—
Accounts payable	148,909	139,439
Dividend payable	93,902	85,365
Subordinated notes payable (note 3)	1,000,000	—
Mortgages payable (note 4)	1,540,735	—
Deferred income taxes	1,532,300	1,484,300
Shareholders' equity:		
Capital stock (note 5):		
Authorized 2,000,000 (1975 — 1,000,000) shares of \$2 each par value.		
Issued and fully paid 853,657 shares	1,707,314	1,707,314
Contributed surplus	1,613,739	1,613,739
General reserve	3,900,000	3,400,000
Retained earnings	716,382	474,822
Total shareholders' equity	7,937,435	7,195,875
	<u>\$199,119,361</u>	<u>\$159,387,484</u>

*See accompanying notes to consolidated financial statements

We certify that to the best of our knowledge and belief the foregoing consolidated balance sheet is correct and shows truly and clearly the financial condition of the Corporation's affairs.

N.F. Petersen
President

H.T. Burgess
Vice-President

T.G. Taylor
Managing Director

Notes to Consolidated Financial Statements

Sterling Trust Corporation is a federally incorporated trust company subject to the Trust Companies Act.

1. Summary of significant accounting policies:

(a) Basis of consolidation:

The financial statements include the accounts of a wholly-owned subsidiary company.

(b) Investments:

Securities issued by the Government and Provinces of Canada are stated at amortized cost. Mortgages and other securities are stated at cost. Gains and losses are recorded upon sale of investments except where there is a decline in value which is other than temporary at which time a provision is made.

(c) Office premises and equipment:

Office premises, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation is provided on the straight-line method at the following annual rates:

Buildings	5%
Equipment	20%

Leasehold improvements are being amortized on the straight-line basis over the terms of the respective leases.

(d) Income taxes:

Income taxes are provided on reported income in accordance with the tax allocation method. Under this method, timing differences between reported and currently taxable income are provided for in the form of deferred income taxes.

(e) Revenue and expenses:

Investment income and interest expense are recorded on the accrual basis. Fees and commissions are recorded as earned except for certain fees from estates and trusts which are included in income only upon final approval, usually by the courts.

(f) Earnings per share:

Earnings per share is calculated using the weighted average number of shares outstanding during the year.

2. Securities:

Bonds and stocks are stated at cost. The related market values are as follows:

	1976		1975	
	Cost	Market	Cost	Market
Bonds — Government of Canada	\$ 6,811,359	\$ 6,844,244	\$ 6,202,150	\$ 5,982,139
Provinces of Canada	1,072,502	922,833	1,294,109	1,049,488
Municipalities	529,704	485,703	854,902	760,246
Other	652,525	573,405	962,161	808,216
	<u>9,066,090</u>	<u>8,826,185</u>	<u>9,313,322</u>	<u>8,600,089</u>
Stocks	7,388,753	7,025,579	4,357,256	3,681,898
	<u>\$16,454,843</u>	<u>\$15,851,764</u>	<u>\$13,670,578</u>	<u>\$12,281,987</u>

3. Subordinated Notes Payable:

On April 7, 1976 the Corporation issued 11½% series A subordinated notes in the amount of \$1,000,000 due June 30, 1978. The notes are redeemable at the option of the Corporation at any time prior to their due date. Warrants are attached to these notes which give the holders the right to purchase a total of 66,660 common shares at a price of \$9 per share at any time prior to the expiration date of the warrants on June 30, 1978.

4. Mortgages Payable:

Mortgages payable on office premises occupied by the Corporation bear interest at 11½% and are due in 1981. Approximately \$11,000 is payable within one year.

5. Capital Stock:

On July 6, 1976 the company was granted supplementary letters patent whereby the authorized capital stock was increased to 2,000,000 shares.

6. Contractual Obligations:

The Corporation has contractual obligations in respect of leases as follows:

Within five years	\$1,002,000
6 to 9 years	<u>118,000</u>
	<u>\$1,120,000</u>

7. Directors and Officers Remuneration:

The aggregate direct remuneration paid or payable by the Corporation to directors and senior officers during the year was \$185,733 (1975 — \$156,470).

Sterling Trust Corporation
Consolidated Statement of Contributed Surplus,
General Reserve and Retained Earnings

For the year ended December 31, 1976
with comparative figures for 1975

Contributed Surplus	1976	1975
Balance at beginning of year	\$1,613,739	\$1,031,284
Proceeds in excess of par value of capital stock issued during year	—	582,455
Balance at end of year	<u>\$1,613,739</u>	<u>\$1,613,739</u>
General Reserve		
Balance at beginning of year	\$3,400,000	\$3,000,000
Add transfer from retained earnings	500,000	400,000
Balance at end of year	<u>\$3,900,000</u>	<u>\$3,400,000</u>
Retained Earnings		
Balance at beginning of year	\$ 474,822	\$ 354,812
Add transfer from net earnings for the year	1,100,095	853,816
	<u>1,574,917</u>	<u>1,208,628</u>
Deduct		
Transfer to general reserve	500,000	400,000
Dividends	358,535	333,806
	<u>858,535</u>	<u>733,806</u>
Balance at end of year	<u>\$ 716,382</u>	<u>\$ 474,822</u>

*See accompanying notes to consolidated financial statements

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Sterling Trust Corporation as of December 31, 1976 and the consolidated statements of earnings, contributed surplus, general reserve and retained earnings for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

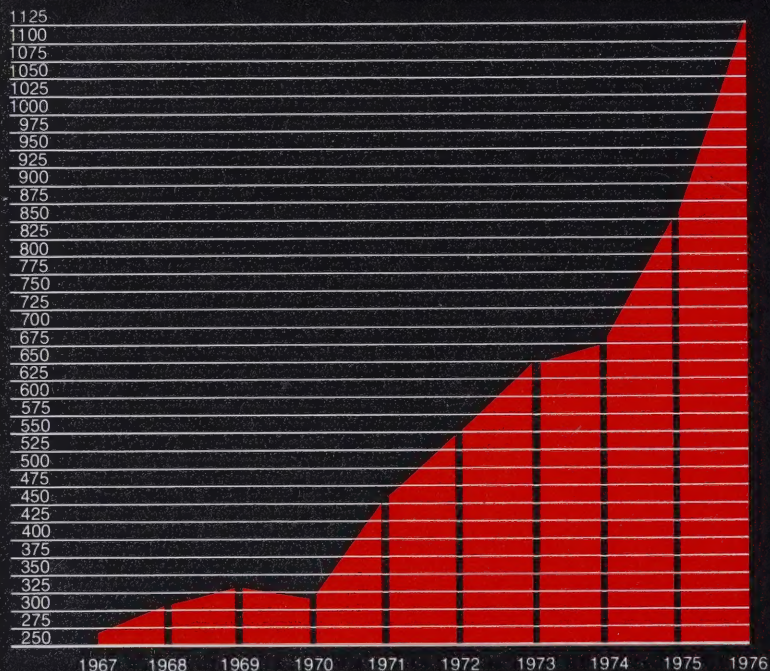
In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as of December 31, 1976 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants
Toronto, Ontario
February 4, 1977

Record of Past Ten Years

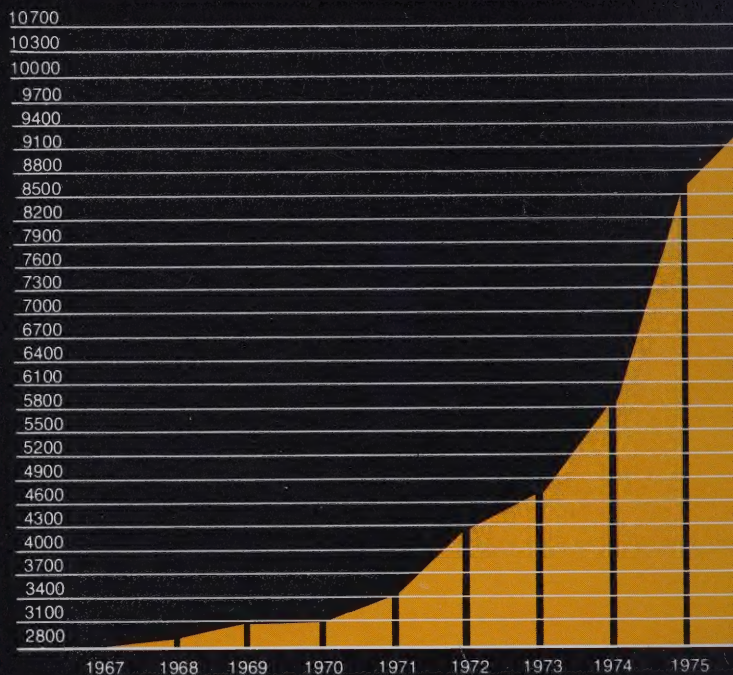
Net Profit After Taxes

Thousands



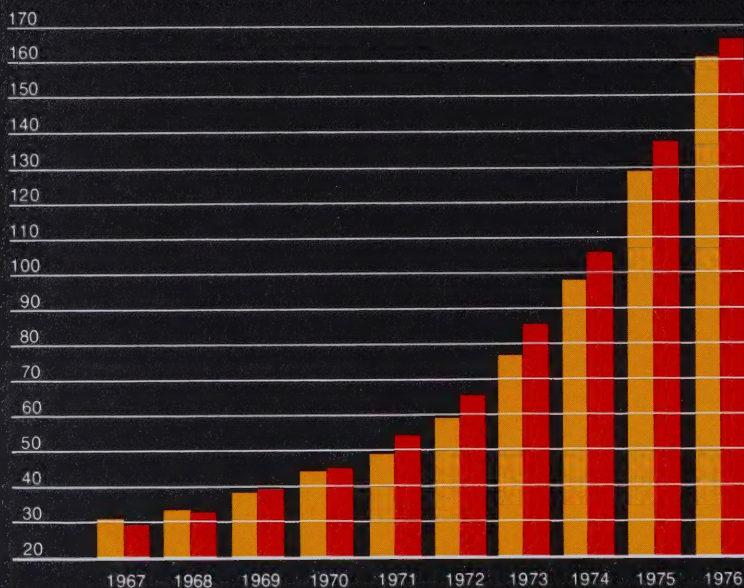
Capital and Reserves

Thousands



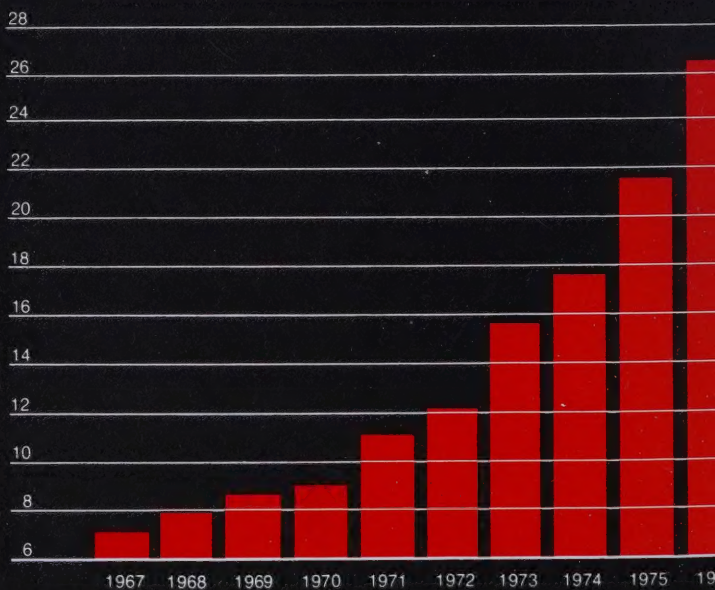
Guaranteed Investment Certificates
Mortgages

Millions



Savings Deposits

Millions



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